Mimi's Rock Corp.
Q3 2021 Results
Conference Call Transcript

Date: **Tuesday, November 30, 2021**

Time: **2:00 PM ET**

Speakers:

David Kohler
Chief Executive Officer

Andrew Patient
Chief Financial Officer

Operator:
Welcome to the Mimi's Rock Third Quarter 2021 Results Conference Call.

As a reminder, all participants are in listen-only mode, and the conference is being recorded. After the presentation, there will be an opportunity to ask questions.

I would now like to turn the conference over to David Kohler, Chief Executive Officer. Please go ahead, sir.

David Kohler:
Thank you very much. Good afternoon, everyone, or morning, depending on your time zone. Thank you for joining us on our Q3 2021 Results Call.

We'll return to the results we filed Friday morning in just a moment, but first, I'd like to take a few minutes to share a bit about Mimi's Rock, and some commentary about what's happening in the broader ecommerce ecosystem as well. Mimi's Rock owns and operates a number of online brands sold in various jurisdictions around the world, all via ecommerce. They have brands which are in the wellness space, and include vitamin and supplements for human consumption, as well as skincare products and a pet supplement line for companion animals. We sell these items in Canada, the United States, multiple European countries, as well as Australia, and through our wholesale partnerships in South Korea and China as well.

Our strategy since we began the business was to scale through a combination of organic growth, and strategic acquisitions as well. Recently we've been focussing on organic growth, and opening new portals in geographies, as the world has become more ecommerce focused, as a result, in part of the general acceptance of the channel, and in part of the influence of the COVID pandemic.

Recently, we have announced some exciting developments in our organic growth strategies. In particular, we announced that we're launching our brands on Tmall. Tmall's part of the Alibaba Group of China, which you may be familiar with. We're in the final stages of execution of that launch, and that portal is expected to be up and running close to the end of this calendar year, shipping opening inventory in the next few weeks, and expecting to see first revenue shortly. I'm sure I don't have to tell you how massive the Chinese market is, and we're very excited about the opportunities.

Conveniently, Chinese consumers are drawn to Western goods, so we're able to ship English language labeled products. Of course, the Tmall site and pages, including product descriptions etc. will be written in Mandarin, but the ability to use our current inventory without special language requirements will keep our supply chain simple, and eliminate the need for additional segregated inventory. We understand in fact, the consumers in the Chinese market often actually prefer English language labelling, due to a perception of higher quality products coming out of Western manufacturing.

Operationally, during Q3, we were met with some significant challenges within our supply chain. These all appear to have been the result of COVID related bottle mix, and while they were disrupted, we're comfortable that they were short term and have, for the most part, been overcome at this juncture. Some of the supply chain issues in recent months were unavoidable. The result was some disruption in supply on a few of our important products. We had an unusually high amount of stock unavailable for sale, which were situations where products are not readily accessible for purchases buying online. This situation affected several of our top products. Again, we feel these challenges are I the rear-view mirror now, as we've worked with channel partners to ensure we have surplus components, materials, and finished goods, when we'd previously been able to sidestep many of these pandemic supply disruptions, which we've seen in almost every area of the economy. Again, we believe these particular challenges are behind us.

By way of explanation, I'll draw your attention to the purposeful language I used when I called this outages, "Stock unavailable for sale" rather than, "Backorder", that I'm referring to, fulfilled by Amazon orders. This is our normal course of business preferred channel, where prime eligible consumers can buy our products for same-day, or next-day delivery. The products ship quickly, they're used to that, and unlike in a traditional retail environment, if you run out of inventory, in retail, where sales will drop to zero until you replenish, we saw on Amazon you can have stock categorized as "unavailable" if the given depot doesn't have product. Sometimes, other depots may have your products, and usually, we have inventory in our 3PL providers, or on-hand at our manufacturer's premises. Because of this, we can mitigate some supply disruptions, by direction in clients, or by offering fulfilment through an alternate, albeit slower process.

All this to say, we can work to mitigate supply chain gaps where there is an impact versus the status quo. As most of us are ecommerce consumers of some note, I'm sure you can appreciate that you might drift off a listing if you realize delivery wasn't going to be next day. We worked hard to create both

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viable secondary channels as well as better processes to ensure that these channels or the challenges, rather, are all behind us, and we look forward to strong uninterrupted supply, going forward.

On a positive note, pleased to report that we've seen a significant jump in our subscribe & save memberships during this period. Many additional customers have opted into our subscribe & save program, whereby they set a period for an auto-reorder of a product, in return for a discount, which is typically between 5% and 15% off list price. We saw an uptick of about 35% in membership, as many new consumers opted into this program in the last quarter. This is important for multiple reasons, including, firstly, simply more repeat customers; but also, higher forecast accuracy that falls out of that. Also, these subscriptions make sales more predictable, and better recovery available to us, as well, in the event of stock unavailable for sale scenarios.

You see, when products are replenished, subscriptions are auto filled. If there was a customer that had subscribed and saved, and didn't get a product because of the temporary unavailability, the moment it's back in stock it would be shipped. We've always been one of the top-tier—excuse me. We've always been on a one of the top-tier product in the subscription offer. The CS (phonetic 05:48) continue to track more consumers to this program, has been great.

During Q3, we also made the decision to shift an important relationship, and engaged a new company called Teikametrics as our digital marketing partner. Teikametrics' use of AI and extensive measurement and tracking tools made them stand out during our RFP process. It's still early. We're seeing very promising leading indicators of performance. These should translate favourably in Q4, and we are excited to move forward with them together, driving increases in revenue and unit volume.

As those of you following the Company would also know, we recently announced the creation of a special committee of our Board. This was cast in order to review M&A opportunities. I'm pleased to report that the special committee is making significant progress in advancing a number of the strategic initiatives, all of which we expect will be positive, in terms of unlocking shareholder value. We will provide more specific updates as that process moves forward.

Also, during the period, we continued working to execute our strategic plan, and in delivering $100 million in revenue, and $20 million in EBITDA in 2024. This plan is expected to be achieved through a combination of organic growth, which includes new product launches, as well as new channels and

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portals, along with strategic M&A. Please do look for some exciting announcements in the weeks ahead on these fronts.

Now that we're seeing the emergence of a new strain of COVID-19 called Omicron, we're anxiously eyeing the economy, and seeing what kind of behavioural impacts may result. I said on our last quarterly call that we expected the reopening of the economy to result in some consumers sliding back to traditional retail, but we believe the ecommerce habits developed in our society will have a lasting effect on consumer behaviour. A reference precedents for this belief, specifically the way ecommerce thrived following the SARS pandemic in the early 2000's. That said, we were all disappointed to learn of a new variant. The reality is that it may actually cause a backslide on some of our movements toward returning to normalcy. We may well lose some of the progress made towards reopening the economy.

I'm sure we're all aware that travel bans have started to re-emerge. This is far from good news for the world. As a practical matter, we believe we are as well prepared as we can be for any new obstacles that may be presented. We've learned a lot over the past 18 months, and we expect that experience to serve us well in the months ahead. Should expect a steady stream of updates and announcements going forward. We will utilize strategic M&A in concert with the growth we will see in our new markets to kickstart a new phase of growth. We're continuing to deal with foreign exchange headwinds, though. We note that volumes are increasing now, and we anticipate growth as we finish the year.

Now, I'd like to turn to Andrew to provide us with a view of the financial results.

Andrew Patient:
Thanks, David. Good afternoon, everyone.

I'll start by providing some additional commentary on our financial results for Q3 2021.

At a high level, the financial performance for Q3 was mediocre. Revenues for Q3 2021 were $8.6 million, compared to almost $9.8 million for the same period last year. A continued softer U.S. dollar did nothing to help, but at a brand level, the sales performance was certainly lower than we had expected for the quarter.

There are a number of reasons for the less than stellar performance, but chief among them was the product availability challenge that we were presented with in the period. Selling on Amazon, or any

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other online marketplace for that matter, comes with its unique challenges; and while we have done well to manage these, the constantly evolving nature of these marketplaces means that sellers continuously have to adapt to and deal with issues of this nature. As a result of the impact of these, neither the skincare nor the supplements business was as strong as we expected in Q3. However, as David commented, we believe we've now dealt with teg majority of these challenges, and we do expect improvement in Q4.

While foreign exchange rates were considerably unfavourable compared to the same period last year—actually, almost $0.10 lower on the USD, Canadian dollar rate, and despite the softer sales performance, we were still able to show a positive EBITDA of over $200,000 for the quarter. We are encouraged that even hen confronted with these multiple headwinds in a particular period, we are still resilient enough as a business to generate positive earnings. The Company does have a benefit of a natural hedge in some large expenses, and as we work to diversify the revenue streams going forward in terms of geography and channel, we expect to be more inflated against these currency rate fluctuations.

That being said, as we stated in the Q3 press release, the impact of the U.S. dollar rate on reported revenue was about $400,000 in a quarter, compared to Q3 last year, and so far, this year is about a $2 million difference compared to 2020.

As earlier discussed, the switch to a new advertising partner late in Q3 had an impact on the performance as new initiatives were effectively postponed during the transition, and ad spend remained relatively static. As a result, ad spend was somewhat less effective, and the ration of ad spend of revenue higher than we would have liked for Q3. Selling and marketing expenses were at $4.6 million in the current quarter, compared to $4.5 million in the same period a year ago, albeit on a higher level of revenue. In Q3 2021, ad spend was 53.8%, compared to 45.8% in Q3 2020. Going forward, we expect to drive ad spend lower, certainly below 50%.

Higher overall selling prices should allow for better overall margins. One of the key drivers is our efficiency on advertising, and we expect this to improve going forward as the new partner takes over. We are seeing these new campaigns have a noticeable, positive impact on the overall trends, and we're cautiously optimistic about the road ahead.

I shall now turn the call back to David.

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David Kohler:
Thanks, Andrew.

As you may recall form earlier discussions, Amazon has announced requirements for certificates of analysis, as a condition of selling supplements on their platform. We anticipated this new level of self-imposed regulatory insight, which shakes some of the so-called "bad actors" out of the market. We see this as a positive development, and as a Company, we're completely prepared for and in possession of, all the necessary documentation to prove the validity of our label claims. Amazon has now started to request these certificates, albeit on a somewhat ad hoc basis. The enforcement of this requirement is expected to begin shortly, though they are as yet uncommittal as the date at which time, products will be delisted if they're not certified. The initiation of this product—project, rather, however, is great news for Mimi's Rock, and we look forward to the full program execution, soon.

Shifting gears, we note that it is important to our organic growth plans, that we have the ability to launch in new markets. Canada's an excellent example of a new geography where we are succeeding. Our Dr. Tobias line was launched in Canada in late 2019; sales grew rapidly in the first year and have continued on a fairly meteor trajectory.

The first nine months of 2021 our Dr. Tobias brand grew by over 75% year-over-year, in terms of both units and dollars. Though these amounts are still relatively modest compared to our U.S. business, we see that our approach to new market introductions works. This bodes well for some of the new markets we're targeting in the short term, and we expect we can follow a similar growth curve.

We've also seen continued growth of our skincare brands in the U.S. market. Recalling they were launched originally in Canada, we reported that last quarter we'd seen sales of up 81% on the skincare lines over the same period in the prior year. The U.S. launch is going well. Q3 saw the continued large year-over-year increase in that market. Our year-to-date lift is over 70%, so we anticipate a similar growth curve to what we've seen with the Dr. Tobias launch in Canada. So far, we've had a great start. On this trajectory, the revenue should be material in the near term.

Additionally, as we reported previously, we've been adding new pack sizes to some of our more popular products. We've seen immediate uptake on these new skews, without any apparent cannibalisation of our existing products. We expected that new customers might be more open to a first purchase of a smaller pack size, and that appears to be correct. We're continuing to add new SKUs.

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Also importantly, we've been increasing prices on products, recognizing that costs and inflation are challenging margins, we've carefully reviewed the landscape, and started implementing price increases selectively. These changes in late Q3 should bare fruit in Q4 and beyond.

Just before we open for questions, I want to expand on my earlier comment regarding our strategic plan for growing the business to $100 million in 2024, with $20 million in EBITDA. Firstly, we will continue to diversify the platforms on which we sell. As I noted, we've added products on multiple new portals in the last year, and we continue to do so in the periods ahead; Tmall is one in particular which we are extremely bullish on. Secondly, we'll continue to expand our product offerings, we will continue to tune our portfolio, and ensure we optimize and leverage the use of our hero products, as well as act in a nimble and expeditious way, as consumer demand continues to evolve. Finally, we will pursue growth by acquisition. We invite you to stay tuned in the months ahead and expect to hear announcements on this front.

With that, I'd like to now open the line for questions. Operator?

Operator:
Thank you.

Our first question is from Antonia Borovina from Bloom Burton. Please go ahead.

Antonia Borovina:
Hi, guys. Thank you for taking my question.

My first one is whether you could provide some more granularity on how your U.S. Dr. Tobias business performed year-over-year, both on a sales and volume basis? Then also, the same question for skincare.

Andrew Patient:
Yes, hi, Antonia, it's Andrew. I'll try to do what I can. As you know, we don't typically break that out in too much detail, but I can certainly give you trend information.

Let's start with the supplements side. We have two significant products on the supplements business; one is a fish oil product, an Omega 3 fish oil, the other is a colon cleanse product and two are—the

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both of these are the leaders in their categories on Amazon and do very well for us. But they have different profiles in terms of margin. We saw fish oil probably a little bit lower than prior years, but the colon cleanse was significantly higher, like way higher, so overall units was certainly up. But the fish oil is a more expensive product, and so it doesn't immediately impact revenue; however, as Dave alluded to, colon cleanse is also one of the products we've been able to take some of the price increases on, so we do expect that to help us going forward.

The DTI business in this quarter—again, it's in U.S. dollars as you know, so that was the one most affected by the foreign exchange. In revenues in Canadian dollars, we've certainly had the most impact. In U.S. dollars, it was slightly down in revenue, but up in units, okay? Then in skincare, Q3, historically, is really a soft quarter for skincare. So, even Q3 last year was not a good quarter, and so we were about the same in both the brads of skincare in revenue, and units slightly up over last year.

Antonia Borovina:
Okay, thanks.

Andrew Patient:
That answer the question? Yes.

Antonia Borovina:
Yes, it does. That's helpful.

Then, just regarding your growth margin—so, you had raised some of your prices at the end of first quarter, and decided to do less discounting, so that boosted your margins in second quarter, and now your margins are back down, so I'm wondering what drove that margin decrease? Is it more on the supply chain, or did you have to go back to doing more discounting last quarter?

David Kohler:
Hi, Antonia. Maybe, I'll take part of that, and then I may ask Andrew to help me with the back end of it.

Yes, you're correct. We did make a decision to raise prices on select products in select markets back in Q1, in particular, the colon cleanse product that Andrew referenced a few minutes ago, which by unit volume, is our top seller. We have done a more thorough review of the competitive marketplace, and within the particular product segments, and looked at the margins on our individual products and taken the decision to make a more broad sweeping increase in prices where we can; so, in Q3 of this year, we raised the price on quite a number of our products. We recognize that consumers seem to be acknowledging all the media attention to inflation and whatnot that these are normal. We've been very selective and very strategic in our choices, but we've now increased product prices on a number of products, not just one or two. So far, we're seeing volumes hold, and thus we anticipate the increase in our margins based upon that.

Antonia Borovina:
Okay.

Then on your partnership—your marketing partnership with Teikametrics, I'm just wondering, what capability do they have that your previous marketing partner didn't have, that you hope will improve, I guess, your visibility on Amazon?

David Kohler:
Well, the thing we're seeing in these early days, which is super encouraging, is they have AI, which they use to deploy the resources that we put at their disposal, but what's fascinating is the real time, like, by the hour reporting they can give us, so we can measure, quite quickly, the results of things, and be very nimble.

We'll talk about Q4 later, but when we look, just over this past weekend with Black Friday and Cyber Monday, we were very keen to see what was happening on an hour-by-hour basis, and they give us tremendous reporting information and feedback that allows us to be more nimble that we've ever been before, in terms of adjustments, in terms of what's working, what can be improved upon—and I'm talking about things like your average cost of sale, your return on advertising spend in some of these metrics that are crucial to us.

Antonia Borovina:
Okay.

Andrew Patient:
Also, if I can—sorry, I wanted to just comment on that. It's not necessarily for this quarter in terms of what we're seeing right now, but one of the key reasons for Teikametrics was in our diversification strategy, they have a very interesting relationship with the Walmart platform. They're one of the, I

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guess, co-developers, and they have some kind of a relationship that allows them sort of front-line access, and that's another channel that we are looking to develop. We're just excited about—it's again, early days there, but some of the good returns on what we're seeing that we're doing on non-Amazon channels.

Antonia Borovina:
Okay. Great. Then maybe finally, can you just talk about what kind of strategic opportunities you're looking at?

David Kohler:
Are you referring to the special committee?

Antonia Borovina:
Yes, yes.

David Kohler:
Yes, I mean, at the high level I can tell you that the committee was cast in order to evaluate M&A opportunities. Unfortunately, I can't reveal the nature of those at the moment, because these are all live files we're working with, but I can tell you that the committee was struck because we saw a number of both inbound and outbound M&A opportunities being presented to us, so we've created this subcommittee in order to ensure that we take a good hard look at the opportunities being availed to us without being too disruptive to Management. That committee is managing that set of files at the moment, and we will certainly report on them as they develop, and when we are able to.

Antonia Borovina:
Great. Thanks for taking my questions.

David Kohler:
No problem

Operator:
I would like to turn the conference back over to David Kohler, for any closing remarks.

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David Kohler:

Thank you and thank you all for joining us on the call.

We will be putting a transcript of this call on our website, so you may contact us through our website at any time, at www.mimisrock.com, or certainly feel free to reach out to me personally with any other follow-up questions.

We look forward to communicating again with you soon. Thank you all and have a great day.

Operator:

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.

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